



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON DC 20301-1100



OCT 7 2003

The Honorable Duncan Hunter
Chairman, Committee on Armed Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In accordance with statute, I am notifying you of the Department's intent to transfer \$52.2 million of Army family housing funds into the Department of Defense Family Housing Improvement Fund (FHIF) to finance a family housing privatization project at Fort Campbell, Kentucky.

The Army will use these funds along with \$7.9 million already in the FHIF to invest in a real estate partnership that will provide 4,255 renovated and new family housing units at Fort Campbell. The Army's total investment in this project will be \$60.1 million.

A description of the proposed project is enclosed. Representatives of the Army are available to provide any additional information you or your staff may desire.

A similar letter is being sent to the Chairmen and Ranking Members of the other congressional Defense Committees.

Sincerely,

Dov S. Zakheim

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



MILITARY HOUSING PRIVATIZATION INITIATIVE PROJECT SUMMARY

INSTALLATION: Fort Campbell, Kentucky

SCOPE

This initiative will privatize the on-post family housing operations and management at Fort Campbell. The project will be executed through a real estate transaction between the Army and its development partner, Actus Lend Lease, previously selected under a Request for Qualification (RFQ) procurement process. The partner, Actus Lend Lease, will develop and manage the Fort Campbell residential community. The partner will design and construct a residential community that will provide soldiers access to quality, affordable housing.

The Army will convey 4,230 existing housing units and out-lease the underlying land for a period of 50 years with an option to continue the project for an additional 25 years. The Army will make a direct investment of \$60.1 million to the project. In turn, the development partner will invest \$6.0 million in developer funds and obtain commercial first mortgage financing of \$145 million. The land and improvements will revert back to the Army at the end of the lease.

The initial development plan of the project includes: (1) the demolition of approximately 1,326 existing homes (6 of these will be returned to the installation and 1 will be converted to a community center) and (2) the construction of 1,351 new homes. The remaining inventory of 2,904 existing homes, which includes 3 historic homes, and 120 recently constructed homes, will be maintained and renovated to adhere to modern construction and State Historic Preservation Office standards. Additionally, the Fort Campbell developer partner will construct five new community centers and create modern neighborhood amenities such as ball fields, landscaping, jogging/bike paths, and parks. The ending inventory of the Fort Campbell community will be 4,255 new, remodeled and maintained homes. The Army will pay the Basic Allowance for Housing (BAH) to soldiers, who in turn will pay rent and utilities for the privatized housing. Rents will be equal to BAH minus a utility allowance for the soldier to pay utility bills.

AUTHORIZATION

10 U.S.C. -- Section 2875 -- Investments. The Army will make a direct investment of \$60.1 million in a limited liability corporation for purposes of constructing, renovating, operating, and managing family housing.

10 U.S.C. -- Section 2878 -- Conveyance or lease of existing property and facilities. Facilities and infrastructure will be conveyed, and underlying land out-leased to the partner as part of this project.

10 U.S.C. -- Section 2880 -- Unit size and type. Housing will be renovated and constructed to community standards.

10 U.S.C. -- Section 2881 -- Ancillary support facilities. This project includes the transfer of ancillary supporting facilities as well as the construction of new ancillary facilities such as tot lots, playgrounds, etc.

JUSTIFICATION

Privatization authorities allow the Army to leverage scarce funds and the value of installation assets to obtain private sector capital and expertise to manage, improve and construct on-post family housing in the U.S. at a life cycle cost less than using traditional appropriated funds. These authorities will allow the Army and its partner to provide quality Army housing and residential communities that are sustainable over time.

SOURCE OF FUNDS

This project requires \$60.1 million from the Department of Defense Family Housing Improvement Fund (FHIF). The Army previously transferred \$7.9 million from the FY 1998 Army Family Housing Construction (AFHC) appropriation to the FHIF. The source of funds for the additional \$52.2 million is the FY 2002 AFHC project at Fort Campbell.